

OSCEOLA MUNICIPAL WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2014

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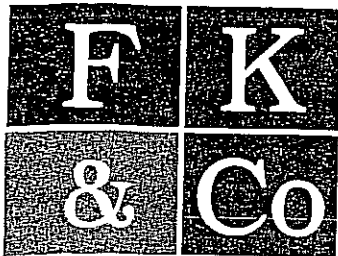
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OSCEOLA MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Ryan Rychnovsky	Chair	December 31, 2016
Mackenzie O'Hair	Vice-Chair	December 31, 2018
Alisha Kale	Trustee	December 31, 2013
Susanna Contreras	Trustee	December 31, 2013
Dave Neas	Trustee	December 31, 2018
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite
(After January 2014)		
Ryan Rychnovsky	Chair	December 31, 2016
Mackenzie O'Hair	Vice-Chair	December 31, 2018
Alisha Kale	Trustee	December 31, 2019
Susanna Contreras	Trustee	December 31, 2019
Dave Neas	Trustee	December 31, 2018
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite

Osceola Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Osceola Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2014, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Osceola that is attributable to the transactions of the Waterworks. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 18 through 19 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2015, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC
Certified Public Accountants

Des Moines, Iowa
January 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osceola Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

Because the Waterworks was not separately audited in prior years, much of the information is not easily comparable to prior years. Comparative data has been provided, if available.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the Waterworks totaled \$3,444,967 for the year.
- Disbursements of the Waterworks totaled \$3,583,661 for the year.
- The Waterworks total cash basis fund balance decreased 22%, or approximately \$139,000, from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in our financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2014.

FINANCIAL ANALYSIS OF THE WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

The purpose of this statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balances.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water reconnect fees, rent for space on the water tower and miscellaneous fees. The City of Osceola pays the Waterworks contract fees to include sewer and garbage charges on the water utility bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, calculation of water utility billing and payments. A summary of cash receipts, disbursements and changes in cash balances for the year ended June 30, 2014 is presented below:

Changes in Cash Balances	
	Year ended June 30, 2014
Receipts:	
Use of money and property	\$ 263,891
Charges for service	1,374,213
Sale of real estate	70,732
Insurance reimbursement	2,243
Donations	86,614
Sewer rental, garbage and miscellaneous fees collected for City	1,564,255
Miscellaneous	83,019
Total receipts	<u>3,444,967</u>
Disbursements:	
Business type activities	1,416,600
Sewer rental, garbage and miscellaneous fees remitted to City	1,552,214
Debt service:	
Principal paid	203,000
Interest paid	40,810
Service fees	5,830
Capital projects	365,207
Total disbursements	<u>3,583,661</u>
Net change in cash balance	(138,694)
Cash balance beginning of year	<u>617,109</u>
Cash balance end of year	<u>\$ 478,415</u>
Cash Basis Fund Balance	
Restricted for:	
Bond principal and interest payments	\$ 399
Garbage fees	28,531
Total restricted cash basis fund balance	<u>28,930</u>
Unrestricted	<u>449,485</u>
Total cash basis fund balance	<u>\$ 478,415</u>

The Waterworks' unrestricted cash balance is available for use in the routine operation of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution and treatment plant areas. The Waterworks' restricted cash balances are restricted funds for the repayment of the bond principal and interest payments and garbage charges collected for the City.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Waterworks did not process a budget amendment.

The budget approved by the Osceola Water Board of Trustees contained a line item titled "cash on hand" that was included in the budget that was entered into the software. If receipts had included this cash on hand amount, the Waterworks' would have ended the year with a positive balance of \$11,306.00. During the fiscal year, the Waterworks' disbursements exceeded its budgeted amount by \$48,527.

DEBT ADMINISTRATION

At June 30, 2014, the Waterworks had \$2,129,000 in revenue bonds outstanding compared to \$2,332,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Waterworks appointed officials considered many factors when approving the fiscal year 2015 budget, including water main repairs and replacements, upkeep of the current water facilities and fees that will be charged.

Current economic conditions beyond the Water Board of Trustees control play a significant role in the daily operations of the distribution and treatment services. These conditions include, but are not limited to:

- The need to maintain vehicles and machinery.
- The need to comply with federal and state regulations for the treatment and distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have any questions or need additional information regarding this report, please contact Osceola Waterworks, 208 West Jefferson Street, Osceola, IA 50213, Dave Neas, Chairman, or by telephone at (641) 342-1435.

Financial Statement

OSCEOLA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2014

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,374,213
Miscellaneous	83,019
Total operating receipts	<u>1,457,232</u>
Operating disbursements:	
Business type activities	<u>1,416,600</u>
Total operating disbursements	<u>1,416,600</u>
Excess of operating receipts over operating disbursements	<u>40,632</u>
Non-operating receipts (disbursements):	
Interest on investments	2,083
Rental income	261,808
Sale of real estate	70,732
Insurance reimbursement	2,243
Donations	86,614
Sewer rental, garbage and miscellaneous fees collected for City	1,564,255
Sewer rental, garbage and miscellaneous fees remitted to City	(1,552,214)
Debt service	(249,640)
Capital outlay	(365,207)
Net non-operating receipts (disbursements)	<u>(179,326)</u>
Change in cash balance	(138,694)
Cash balance beginning of year	<u>617,109</u>
Cash balance end of year	<u>\$ 478,415</u>
Cash Basis Fund Balance	
Restricted for:	
Bond principal and interest payments	\$ 399
Garbage fees	28,531
Total restricted cash basis fund balance	<u>28,930</u>
Unrestricted	<u>449,485</u>
Total cash basis fund balance	<u>\$ 478,415</u>

See notes to financial statement.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Osceola Municipal Waterworks (Waterworks) is a component unit of the City of Osceola, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for bond principal and interest payments and garbage fees due to the City of Osceola are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2014 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. The Waterworks deposits at June 30, 2014 consisted of deposits in federally insured depository institutions and cash deposits in Edward Jones.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	Total
2015	\$ 210,000	37,258	247,258
2016	216,000	33,582	249,582
2017	222,000	29,803	251,803
2018	229,000	25,918	254,918
2019	236,000	21,910	257,910
2020	243,000	17,780	260,780
2021	250,000	13,528	263,528
2022	258,000	9,153	267,153
2023	265,000	4,638	269,638
	<u>\$ 2,129,000</u>	<u>193,570</u>	<u>2,322,570</u>

Water Revenue Bonds

On May 14, 2002, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$4,066,000 of water revenue bonds with interest at 3.00% per annum. Effective June 1, 2013, the interest rate was amended to 1.75% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$4,066,000 in water revenue bonds issued in 2002. Proceeds from the bonds provided financing for the construction of water main replacements. The bonds are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,322,570. For the current year, principal and interest paid and total customer net receipts were \$243,810 and \$40,632, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Note 3. Water Revenue Bonds Payable (continued)

- (e) All users of the system, including the City, shall pay for usage.

During fiscal year 2014, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal and interest on the revenue bonds as they become due. In addition, the balance in the water revenue bond and interest sinking account was deficient at June 30, 2014. Also, the City is not being charged for service as required.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Waterworks is required to contribute 8.93% of covered salary. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the year ended June 30, 2014 was \$32,295, equal to the required contribution for the year.

Note 5. Other Postemployment Benefits

Plan Description – The City of Osceola operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City of Osceola's insurance policy. There are 6 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$556.66 for single coverage, \$1,113.32 for employee/spouse coverage, and \$1,669.98 for family coverage. For the year ended June 30, 2014, the Waterworks contributed \$105,053 and plan members eligible for benefits contributed \$8,913 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2014 is \$23,923. The liability has been computed based on rates of pay in effect at June 30, 2014.

Note 7. Lease Agreements

The Waterworks is leasing antenna space on the water tower to USCOC of Greater Iowa, LLC (tenant). The initial term of the lease began in 2009. The Waterworks received \$13,327 from this lease in fiscal year 2014, with five additional (5) year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 3% per year over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.

Note 7. Lease Agreements (Continued)

The City of Osceola and the Waterworks have entered into a lease agreement with HGI-Lakeside, LLC (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is renewable by the Casino every five years, with the term of the lease extending through the year 2047. As part of this lease, the Waterworks is to receive \$245,000 per year from the Casino, beginning January 1, 2012, plus a 1% increase per year. During fiscal year 2014, the Casino paid \$248,481 to the Waterworks in relation to this lease. In addition, this lease requires the Casino to employ not less than 290 full-time employees.

Note 8. Contract with Southern Iowa Rural Water Association

The Waterworks and the Southern Iowa Rural Water Association (SIRWA) entered into an agreement whereas the Waterworks will sell a maximum of 470,900 gallons of water per day to SIRWA. The agreement was entered into in 1994, and is for a term of 40 years. Currently the Waterworks sells water to SIRWA at a rate of \$2.36 per thousand gallons.

Note 9. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Contingencies

The Waterworks participates in federal, state and local grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal, state and local regulations and requirements, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal, state or local audit may become a liability of the Waterworks. The effects of potential revisions or disallowances, if any, is unknown.

The Waterworks is not in compliance with its revenue bond loan agreements as documented in Note 3 above. The potential liability as a result of this noncompliance is unknown.

Note 11. Commitment

The Waterworks has an agreement with a leak detection service. The total amount owed to the leak detection service will be \$2,850 in 2016 and \$2,850 in 2018. These contract amounts will be paid after this service is provided in 2016 and 2018.

Note 12. Subsequent Events

The Waterworks has evaluated subsequent events through January 26, 2015, which is the date that the financial statement was available to be issued.

Note 13. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Note 14. Prior Period Adjustment

The beginning cash basis net assets have been restated to correct errors in reporting the cash balance. The restatement increased the beginning cash balances.

The effects of these adjustments are as follows on the statement of cash receipts, disbursements and changes in cash balance:

	<u>Enterprise Fund</u>
Balance June 30, 2013, as previously reported	\$ 589,048
Adjustment to reflect the correct cash balance	<u>28,061</u>
Balance July 1, 2013, as restated	<u>\$ 617,109</u>

Other Information

OSCEOLA MUNICIPAL WATERWORKS
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2014

	Actual	Less Amounts not Required to be Budgeted	Net	Budget Amounts Original and Final	Final to Net Variance
Receipts:					
Use of money and property	\$ 263,891	-	263,891	258,352	5,539
Charges for service	2,938,468	1,564,255	1,374,213	1,574,511	(200,298)
Miscellaneous	242,608	-	242,608	225,000	17,608
Total receipts	3,444,967	1,564,255	1,880,712	2,057,863	(177,151)
Disbursements:					
Business type activities	3,583,661	1,552,214	2,031,447	1,982,920	(48,527)
Excess (deficiency) of receipts over (under) disbursements	(138,694)	12,041	(150,735)	\$ 74,943	(225,678)
Cash balances beginning of year	617,109	-	617,109		
Cash balances end of year	\$ 478,415	12,041	466,374		

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION -- BUDGETARY REPORTING

June 30, 2014

The Osceola Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. There were no budget amendments for the Waterworks during the year ended June 30, 2014.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted.

Supplementary Information

OSCEOLA MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2014

	General	Sinking	Reserve	Casino	Total
Operating receipts:					
Charge for service:					
Sale of water and late penalty	\$1,327,162	-	-	-	1,327,162
Other charges for service	25,383	-	-	-	25,383
Meter fee	5,168	-	-	-	5,168
Collection fee from City	16,500	-	-	-	16,500
	1,374,213	-	-	-	1,374,213
Miscellaneous:					
Sales tax	55,581	-	-	-	55,581
Customer deposits	18,500	-	-	-	18,500
Miscellaneous	8,938	-	-	-	8,938
	83,019	-	-	-	83,019
Total operating receipts	1,457,232	-	-	-	1,457,232
Operating disbursements:					
Business type activities:					
Salaries	362,611	-	-	-	362,611
Payroll taxes	59,583	-	-	-	59,583
Employee insurance	121,426	-	-	-	121,426
Clothing allowance	1,334	-	-	-	1,334
Employee training	2,276	-	-	-	2,276
Vehicle expense	17,082	-	-	-	17,082
Utilities	76,989	-	-	-	76,989
Telephone	7,142	-	-	-	7,142
Minor repair and maintenance	15,291	-	-	-	15,291
Advertising	3,785	-	-	-	3,785
Insurance	26,433	-	-	-	26,433
Reservoir contribution	9,680	-	-	-	9,680
Legal	3,690	-	-	-	3,690
Lab test and supplies	14,114	-	-	-	14,114
Sales tax	59,702	-	-	-	59,702
Miscellaneous	9,254	-	-	-	9,254
Fees	2,773	-	-	-	2,773
Hydrant refunds	5,200	-	-	-	5,200
Valve replacement and repair	6,964	-	-	-	6,964
Fire hydrant replacement and repair	13,652	-	-	-	13,652
Leak survey	2,350	-	-	-	2,350
Deposit refunds	15,330	-	-	-	15,330
Other contractual services	1,149	-	-	-	1,149
Chemicals	538,211	-	-	-	538,211
Minor tools and equipment	11,349	-	-	-	11,349
Water meters	11,074	-	-	-	11,074
Office supplies	6,164	-	-	-	6,164
Postage	9,748	-	-	-	9,748
Safety equipment and supplies	2,244	-	-	-	2,244
Total operating disbursements	1,416,600	-	-	-	1,416,600

OSCEOLA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2014

	General	Sinking	Reserve	Casino	Total
Excess of operating receipts over operating disbursements	\$ 40,632	-	-	-	40,632
Non-operating receipts (disbursements):					
Interest on investments	1,202	-	881	-	2,083
Rental income	13,327	-	-	248,481	261,808
Sale of real estate	70,732	-	-	-	70,732
Insurance reimbursement	2,243	-	-	-	2,243
Donations	86,614	-	-	-	86,614
Sewer rental, garbage and miscellaneous fees collected for City	1,564,255	-	-	-	1,564,255
Sewer rental, garbage and miscellaneous fees remitted to City	(1,552,214)	-	-	-	(1,552,214)
Debt service:					
Principal redemption	-	(203,000)	-	-	(203,000)
Interest paid	-	(40,810)	-	-	(40,810)
Service fees	-	(5,830)	-	-	(5,830)
Capital outlay	(179,695)	-	-	(185,512)	(365,207)
Total non-operating receipts (disbursements)	6,464	(249,640)	881	62,969	(179,326)
Excess (deficiency) of receipts over (under) disbursements	47,096	(249,640)	881	62,969	(138,694)
Operating transfers in (out)	(250,039)	250,039	-	-	-
Net change in cash balances	(202,943)	399	881	62,969	(138,694)
Cash balances beginning of year	50,176	-	317,632	249,301	617,109
Cash balances end of year	\$ (152,767)	399	318,513	312,270	478,415

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	05-14-02	1.75%	\$ 4,066,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
05-14-02	\$ 2,332,000	-	203,000	2,129,000	40,810	-

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

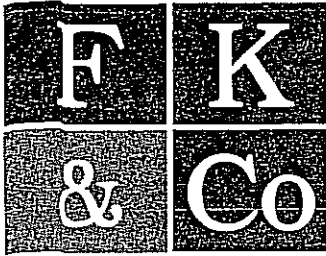
Schedule 3

BOND MATURITIES

June 30, 2014

Year Ending June 30,	Water Revenue Bonds	
	Issued May 14, 2002	
	Interest Rates	Amount
2015	1.75%	\$ 210,000
2016	1.75%	216,000
2017	1.75%	222,000
2018	1.75%	229,000
2019	1.75%	236,000
2020	1.75%	243,000
2021	1.75%	250,000
2022	1.75%	258,000
2023	1.75%	265,000
		<u>\$ 2,129,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Osceola Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2014, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated January 26, 2015. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D) and (E) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC
Certified Public Accountants

Des Moines, Iowa
January 26, 2015

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Osceola Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

Response – Osceola Water Works will look into the internal control procedures to ensure we are utilizing all staff available including appointed officials for reconciling bank accounts, signing of checks and handling or receipting cash.

Conclusion – Response acknowledged.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – Due to Osceola Water Works being a small entity and recognizing we are unable to prepare financial statements and note disclosures, we will take the necessary steps to provide the most up to date financial information for the Board of Trustee members to make management decisions. In addition, Water Works management will work to obtain additional knowledge regarding financial reporting.

Conclusion – Response acknowledged.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled during the fiscal year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. The Waterworks Board of Trustees should review the reconciliation and monitor delinquent accounts each month.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

Response – Osceola Water Works will implement a procedure for the reconciliation of utility billings, collections and delinquent accounts. A spreadsheet will be created to track this collection for daily receipt deposits, penalty's, customer ACH transactions and adjustments including bad debt. This will be reviewed with the Superintendent and/or board member.

Conclusion – Response acknowledged.

- (D) Meter Deposits – The Waterworks accounting system is not keeping track of the meter deposits on hand, by customer. As a result, the Waterworks is unable to identify the individuals who have meter deposit amounts on hand at any point in time.

Recommendation – The Waterworks should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

Response – Osceola Water Works can ensure the amount of customer deposits from July 1, 2013 forward are accounted for in the system. However, deposits that were collected prior to July 1, 2013 are not accounted for. Osceola Water Works will set up a separate fund for customer meter deposits & refunds from July 1, 2013 forward. The customer meter deposit refunds prior to July 1, 2013 will be tracked in a separate fund and line item.

Conclusion – Response acknowledged.

- (E) Material Adjustments – We proposed several adjusting journal entries which were material to the Waterworks financial statement. For example, the beginning cash balance was restated to properly reflect the cash balance at July 1, 2013. In addition, over \$1 million in Waterworks receipts and disbursements were not recorded as receipts and disbursements on the Waterworks accounting records.

Recommendation – We recommend that all balances at month and year-end be reviewed for accuracy and completeness, and implement procedures to ensure all receipts and disbursements are properly recorded on the Waterworks accounting records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Osceola includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2014, exceeded the amount budgeted for the Waterworks. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

- (4) Business Transactions – No business transactions between the Waterworks and Waterworks officials or employees were noted.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

It does not appear the Waterworks published its board minutes and related claims timely, as required. Chapter 388.4 of the Code of Iowa states that “Immediately following a regular or special meeting of a utility board, the secretary shall prepare a condensed statement of the proceedings of the board and cause the statement to be published in a newspaper of general circulation in the city. The statement must include a list of all claims allowed, ...”. In some instances, the board minutes and related claims were not published until more than 30 days after the board meeting. As a result, it does not appear the Waterworks met the intent of Chapter 388.4 of the Code of Iowa.

Recommendation – The Waterworks should comply with Chapter 388.4 of the Code of Iowa and publish all minutes and related claims timely in the newspaper.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

- (7) Deposits and Investments - Instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

A resolution naming official depositories has not been adopted by the Waterworks as required by Chapter 12C.2 of the Code of Iowa. During the year ended June 30, 2014, it appears the Waterworks had monies in a depository located in New York, New York. Chapter 12C.4 of the Code of Iowa requires that all depositories be located in the State of Iowa.

The Waterworks has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, it appears the Waterworks has monies invested with a broker, and that these monies are not insured by the federal depository insurance corporation, as required by Chapter 12B.10 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Waterworks as required. In addition, the Waterworks should ensure compliance with Chapter 12C.4 of the Code of Iowa which requires all depositories to be located in the State of Iowa.

The Waterworks should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. Also, the Waterworks should ensure compliance with Chapter 12B.10 of the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (8) Revenue Notes and Bonds – The following instances of non-compliance with the water revenue bond requirements were noted:

- The Waterworks Water Revenue Bonds resolution requires the Waterworks “leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

The Waterworks fiscal year 2014 net water operating income of \$40,632 is less than 110% of the \$243,810 of water revenue bond principal and interest due during fiscal year 2014.

- The Waterworks balance in the water revenue bond and interest sinking account was deficient by over \$20,000 as of June 30, 2014.
- The Waterworks bond resolutions require all users of the system, including the City, be charged for usage. The City is currently not being charged for water usage.

Recommendation – In the future, the Waterworks should ensure that the water revenue bond resolutions are met. The Waterworks should also consult with bond counsel to determine the disposition of this matter. In addition, the Waterworks should ensure City water usage is billed and paid by the City as required by the bond provisions.

Response – Osceola Water Works will review and implement a process to ensure we have a balance of net reserves in the fund account prior to the end of the fiscal year. Discussions will be held regarding the charge of usage for city accounts.

Conclusion – Response acknowledged.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

- (9) Utility Rates - Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. However, the customer deposit amount, the late fee amount and the minimum bill amount charged by the Waterworks do not appear to be established by a resolution as required.

Chapter 388.6 of the Code of Iowa states that a utility may not provide use or services at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing free or reduced rate water service to some non-profits. This would appear to violate Chapter 388.6 of the Code of Iowa.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

The Waterworks should also ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing utility use or service at a discriminatory rate.

Response – We will establish all of the water utility rates by resolution of the trustees, and publish them accordingly. We will also review the issue of providing water service at a discriminatory rate.

Conclusion – Response acknowledged.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Waterworks to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Waterworks does not receive an image of the back of each cancelled check for its bank account.

Recommendation – The Waterworks should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (11) Water Loss – The Waterworks does not compare the gallons of water pumped by the Waterworks to the gallons of water sold to its customers. This data may be useful to help the Waterworks obtain grants, to help identify potential unauthorized use of water services and to identify if there is a problem with water leaks in the City.

Recommendation – The Waterworks should implement procedures to compare gallons of water pumped to the gallons of water billed.

Response – Osceola Water Works has implemented a process to track the water loss. We are working to define our tracking to include the water of gallons pumped at the Water Treatment Plant to the water of gallons sold to its customers by the dates water meters are read instead of beginning of month to end of month. We are working to ensure all city entities have their water metered and that we are ensuring water used through fire hydrants are entered into this process.

Conclusion – Response acknowledged.